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Supreme Court of the United States

OCTOBER TERM, 1969

No. 563

THE HOUSE OF SEAGRAM, INC.,

Appellant,

—against—

STATE LIQUOR AUTHORITY and ARTHUR LEVITT, Comptroller of the State of New York,

Appellees.

On Appeal From The Court of Appeals Of The State Of New York

JURISDICTIONAL STATEMENT

H. GARDNER INGRAHAM,
Attorney for Appellant,
40 Wall Street,
New York, N. Y. 10005

EMANUEL BECKER,
LESTER H. SCHREIBER,
SCHREIBER & SCHREIBER,
Of Counsel.

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Appellees.

On Appeal From The Court of Appeals Of The State Of New York

Jurisdictional Statement

This is an appeal from the judgment of the Court of Appeals of the State of New York sustaining the validity of Section 99-a of the Alcoholic Beverage Control Law (3 McKinney Cons. Laws) enacted by Chapter 204 of the New York Session Laws of 1963 insofar as the Section, as construed by the Courts of New York, has been held to apply to appellant's sale of wines and liquors in the original package imported by appellant from foreign countries.

Citations of the Opinions Below

The memorandum decision and remittur of the Court of Appeals of the State of New York, affirming on the opinion of the Appellate Division of the Supreme Court for the Third Department, appears on pages 57 to 60 of the certified transcript and is set forth in Appendix A. The opinion of the Appellate Division is reported in 30 A. D. (2d) 380, 292 N. Y. S. 2d 183 (3rd Dept., 1968). It appears on pages 50 to 55 of the transcript and is set forth in Appendix B. The opinion of the New York Supreme Court, Special Term, Albany County, is reported in 51 Misc. 2d 157, 272 N. Y. S. 2d 839 (1966). It appears on pages 9 to 14 of the transcript and is set forth in Appendix C.

Grounds for Invoking the Jurisdiction of this Court

Appellant engages in wine and liquor importation and holds a wholesale license in New York. Under threat of loss of license, and inability to continue to market its imports in New York, it paid to the New York State Liquor Authority for a "brand label use permit" fee (in addition to a license fee) amounts varying from 13⅓ cents to 75 cents per gallon, for the wine and whiskey imported by it from foreign countries and sold by it in the original package at wholesale in the State of New York.

This proceeding was commenced by the appellant and many others[1] pursuant to Article 78 of the New York C.P.L.R. to direct the New York State Liquor Authority and the State Comptroller to return the monies paid under protest to the former, and to declare the statute

[1] Actions were brought in the court below by numerous importers. By stipulation with the State's Attorney General disposition of the instant appeal will determine the others.

pursuant to which such monies were paid unconstitutional on the ground that the statute is repugnant to the Import-Export Clause, Article 1, Section 10, Clause 2, of the United States Constitution insofar as it purports to tax appellant for liquors imported by it from foreign countries and sold by it in the original package within the State of New York.

Appellees moved to dismiss the petition on the ground that the fee was constitutional and that a refund would be unjust enrichment. Their motion was granted in the Supreme Court, Albany County, and affirmed in both appellate courts solely on the ground that the statute pursuant to which appellant was required to pay is constitutional. It has not been contended in this case that the charge was an "inspection fee" permitted by the Import-Export Clause. The New York Court of Appeals specifically affirmed that:

> "The Court necessarily passed upon the contention of the petitioners-appellants that the imposition of a fee for the issuance of a brand label use permit . . . constitutes a tax or duty of 'imports' proscribed by the Import-Export Clause—article 1, section 10 of the United States Constitution • • •" (Tr. p. 59)

The Court of Appeals did not distinguish between imports from foreign countries and sister states. But the sole disputed issue is the taxation of foreign imports, and it was so understood.

The decree sought to be reviewed was made on July 2, 1969. Notice of appeal to this Court was filed with the New York Supreme Court, Albany County, on August 25, 1969 (Tr. p. 63). Jurisdiction of this Court is predicated on Section 1257(2) of Title 28 of the United

States Code. The following cases sustain this Court's jurisdiction:

Standard Oil Company of California v. *Johnson*, 316 U. S. 481 (1942);

Southern Pacific Co. v. *Arizona*, 325 U. S. 761 (1945);

Goldblatt v. *Town of Hempstead*, 369 U. S. 590 (1962).

Statute Involved

Section 99-a of the Alcoholic Beverage Control Law of New York State (Ch. 308, 1963 New York Session Laws) provides:

> "1. (a) no manufacturer or wholesaler of liquor, wine or beer shall sell or solicit any order for any liquor, wine or beer in the state, the container of which bears a label stating the brand or trade name of the owner or producer, unless each brand label shall first have been registered with and approved by the authority pursuant to the provisions of section one hundred seven-a of this chapter and a brand label use permit has been issued by the authority in accordance with the provisions of this section.
>
> • • •
>
> "3. (a). For the exercise of the privilege granted by any brand label use permit issued pursuant to this section, each manufacturer or wholesaler who is the holder of such a permit shall pay to the authority a fee, based upon the gallons of liquor, wine or beer sold in the state under such brand or trade name, the amount of which shall be determined in accordance with the following table:
> • • •"

The entire section is printed in Appendix D.

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[1] Repealed by Laws 1968, Ch. 397

The duty of the State Liquor Authority and the Comptroller to make refunds is provided for in Section 99-a, subdivision 6 and Section 127-d of the New York Alcoholic Beverage Control Law. These are printed in Appendix E.

The Question Presented

Is the New York tax on liquor imported by appellant from foreign countries and sold by it at wholesale in the State of New York in its original package, repugnant to Article 1, Section 10, Clause 2, of the Constitution of the United States? Or, has the 21st Amendment modified the Import-Export Clause so that such sales, which the Courts below agreed would otherwise be tax free, have become subject to state liquor taxes?

Statement of the Case

In 1963, New York State passed the act in issue. The tax on each gallon of imported liquor sold by the importer within the state was in addition to a wholesale license fee. Under the provisions of the statute, failure to pay the tax deprives the importer of his right to sale within the state.

Since the statute purports to be a charge for a "brand label use permit" it is in order to note that under Federal [27 USC §205(e)] and state law [Alcoholic Beverage Control Law §107-a] liquor must be sold in labeled bottles. The issue raised is whether liquor imported by appellant from foreign countries in such labeled bottles, packaged in crates or cartons generally containing 12 bottles, and sold in the original package by appellant at wholesale only (and not at retail) within the state is subject to the tax despite the fact that he has paid federal import duties. Appellant does not question the right of the state to tax imported barrel

whiskey when rectified, bottled or labeled in the United States before sale.

Under New York State law an importer may sell to wholesalers or retailers; he may not sell to consumers (Alcoholic Beverage Control Law §62). A retail license is required for retail sales; wholesalers may not hold a retail license. Appellant has a wholesale license; sales to consumers are therefore not in issue in this case.

Appellant paid to the State Liquor Authority the tax provided by Section 99-a under protest. Within the time limited by the provisions of the statute it filed claims for refund. Upon denial of its claims, an action for refund was brought in the New York State Supreme Court to have the tax as applied declared unconstitutional on the ground that it was repugnant to Article 1, Section 10, Clause 2, of the United States Constitution, and for a refund under Section 99-a, subdivision 6 and Section 127-d of the Alcoholic Beverage Control Law of the State of New York. The action was dismissed on the ground that the tax was constitutional. The dismissal was affirmed in the intermediate appellate court solely on this ground. The Court of Appeals affirmed on the opinion of the court below, and as we have noted, affirmed that it had "necessarily" passed on the constitutional issue.

The Supreme Court of Albany County considered the tax constitutional for numerous reasons, but we do not hereafter discuss its opinion because, aside from the grounds stated in the appellate decisions, it confused the Import-Export Clause with the Commerce Clause, and thus relied on law this Court holds to be inapposite. See *Richfield Oil Corp.* v. *State Board of Equalization*, 329 U. S. 69, 75 (1946). The Appellate Division agreed the tax was contrary to the Import-Export Clause as inter-

preted in *Brown* v. *Maryland*, 12 Wheat. 419 (1827) and the decisions of this Court since then:

> "As a general proposition the rule appears to be that goods imported for resale in their original package may not be taxed by a levy on the importer, which levy is related to the sale of the goods. The prohibition against such levies appears to be limited to transactions prior to the goods having reached the market place or point where they are held for sales to consumers." (Tr. p. 51)

But it misapprehended *Department of Revenue* v. *James B. Beam Distilling Co.*, 377 U. S. 341 (1964) and upheld the statute on the ground that the 21st Amendment had changed the Import-Export Clause insofar as it applied to liquor sales made in the state. It also reasoned that the Import-Export Clause had lost its raison d'etre since every state is now an importing state,[3] and the exemption should not in any event apply because petitioners did not claim that the liquor sold continued thereafter in interstate commerce.[4]

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[3] The Court of Appeals had taken a similar position vis-a-vis payment of local sales taxes by national banks, before this Court's decision in *First Agricultural National Bank* v. *Tax Commission*, 392 U.S. 339 (1968). See *Liberty National Bank* v. *Buscaglia*, 21 N.Y. 2d 357, 370, 235 N.E. 2d 101 (1967).

[4] It faulted appellant's petition for failing to allege that the liquor was to be shipped out of the state. The indictment upheld in *Brown* v. *Maryland* was subjected to the same criticism, as the dissent pointed out. The criticism would be significant if the Comerce Clause were involved, not the Import-Export Clause. (See *infra*)

The Question Presented is Substantial

We shall demonstrate that the case here in issue is on all fours with *Brown* v. *Maryland* and its numerous progeny, and that these decisions have not been affected by the 21st Amendment because this Court so held in *Department of Revenue* v. *James B. Beam Distilling Co.* Thus the question, surely a substantial one, is whether either of these interpretations of the Constitution is to be reversed.

POINT I

The decisions of the courts below are contrary to *Brown v. Maryland*, 12 Wheat. 419 (1827)

Brown v. *Maryland* decided that an importer for sale enjoys the right of resale tax free, so long as the import package has not been broken, and he does not display or peddle his wares at retail (at pp. 419, 420, 426-28, 441-443, 450-51).

Waring v. *The Mayor*, 8 Wall. 110, 117, 122 (1869);
License Cases, 5 How. 504, 575, 589, 590, 610, 623 (1847);
May v. *New Orleans*, 178 U. S. 496, 507 (1900);
Burke v. *Wells*, 208 U. S. 14 (1908);
T. R. Powell, State Taxation of Imports—When does an Import Cease to be an Import, 58 Harv. L. Rev. 858 (1945).

The Court justified the importer's free right of resale on the "practice of nations including our own" antedating the Constitution, which presumably was in the minds of the constitutional draftsmen (at pp. 442, 443). This right has not been questioned or criticized

since then, with the exception of the case now before the Court. Cf. *Hooven & Allison Co.* v. *Evatt*, 324 U. S. 652, 687-9 (1945).

In *Brown* v. *Maryland* the claim was specifically presented and argued that the sale for which Brown was indicted was in local, not in interstate commerce; in fact the tax was a license fee required only of importers who made local sales (450-56).[5] *T. R. Powell*, op. cit. *supra*, p. 862, 863, fn. 19. But the Court gave the argument no weight. Subsequent decisions have exempted local sales from state taxation under the Import-Export Clause unless they were retail sales or were made by persons other than the importer:

License Cases, 5 How. 504, 574 (1847);
Cook v. *Pennsylvania*, 97 U. S. 566 (1878);
Burke v. *Wells*, 208 U. S. 14 (1908);
See *James B. Beam Distilling Co.* v. *Department of Revenue*, 367 S. W. 2d 267 (Ky. 1963);
State ex rel H. A. Morton Co. v. *Board of Review*, 15 Wis. 2d 330, 112 N. W. 2d 914 (1962);
See also interpretation in the *Beam* case of *Gordon* v. *Texas*, 355 U. S. 369 (1958). In *Gordon* the importer brought the whiskey into the state for his own use.

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[5] The distinction between the Import-Export Clause and the Comerce Clause is too long established to require discussion. *Richfied Oil Corp.* v. *State Board of Equalization*, 329 U.S. 69, 75 *et seq.* (1946). Only the former prohibits all taxes on imports.

POINT II

The decisions of the courts below are contrary to *Department of Revenue v. James B. Beam Distilling Co.*, 377 U.S. 341 (1964).

In *Beam* this Court specifically rejected the contention that the 21st Amendment limited the Import-Export Clause. But the tax was on liquor imported into and stored in the state, not on the sale as it is in the instant case, and the New York appellate courts below relied on this distinction to uphold a tax on the sale by the importer.

The 21st Amendment does not permit such a distinction. Section 2 of the amendment from which state authority over liquor (in excess of its ordinary authority over its internal commerce) derives, provides:

> "The transportation or importation into any State, Territory or possession of the United States for delivery or use therein of intoxicating liquors, in violation of the laws thereof, is hereby prohibited."

Obviously state control over transportation and importation for delivery or use therein is covered. But sale within the state is not in any way covered by this clause. It would follow that if the Amendment is insufficient to authorize taxation of foriegn imports transported for use into the state, it is insufficient to support taxation of sales within the state to which the clause does not refer. Authority for such taxation, if it exists, must be found elsewhere. Thus the purport of the Import-Export Clause and *Brown* v. *Maryland* remain the sole question.

The New York Courts reached the opposite conclusion, apparently relying on *Gordon* v. *Texas*, 355 U. S. 369

(1958) and a footnote dictum in *Beam* which does not relate to the 21st Amendment.

Gordon v. Texas

Gordon was convicted for failure to obtain a permit for eleven bottles of whiskey he brought in from Mexico and to pay a Texas stamp tax. His conviction was affirmed in a memorandum opinion by this Court. But in *Beam* this Court commented on the *Gordon* case:

> "It is clear that the gravamen of the offense in *Gordon* was the failure to obtain, or even apply for, a permit as required by state law. Such permits, in addition to the other functions, serve to channelize the traffic in liquor and thus to prevent diversion of that traffic into unauthorized channels. In the present case the respondent has both applied for and obtained the requisite permit. The relief it requests is not the abrogation of that requirement, but simply a refund of the import tax."[6] (p. 345)

It would appear the Court in *Beam* regarded the Texas stamp tax, *qua se*, as unconstitutional when applied to imports. The Court also recognized in this comment, as it did in the issues generally before it, that the right to regulate and the right to tax are not coextensive vis-a-vis the Import-Export Clause.

Footnote in Beam

Footnote 7 in *Beam*, on which the Courts below relied, dealt neither with the 21st Amendment nor the Import-Export Clause:

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[6] Appellant has such a permit.

> "Prior to the Eighteenth Amendment Congress passed the Webb-Kenyon Act and the Wilson Act, giving the States a large degree of autonomy in regulating the importation and distribution of intoxicants. Those laws are still in force. 27 U. S. C. §§121, 122. In *DeBary* v. *Louisiana*, 227 U. S. 108, the Court upheld under the Wilson Act a Louisiana license tax imposed on the business of *selling* in their original packages wines and liquors imported from abroad. There is nothing in that decision, nor in the language of either the Wilson Act or the Webb-Kenyon Act, to support the view that Congress intended by those laws to consent to state taxation upon importation of liquor." (p. 345) (Italics as in original text.)

It is apparent that this footnote related to matters antedating the 21st Amendment and did not intend to extend the Amendment as the Courts below held. Moreover, read in the context of the authorities the footnote cites, it does not exempt the New York State tax from the prohibition of the Import-Export Clause.

The Wilson Act, 27 U. S. C. §121.[7]

The Wilson Act, enacted in 1890, specifically recited that it was "An act to limit the effect of regulation of commerce between the several states and with foreign countries in certain cases." This language parallels the language of the Commerce Clause of the Constitution. It was passed after this Court had held that the Commerce Clause prevented the states from prohibiting liquor sales

[7] We do not discuss the Webb-Kenyon Act, 27 U.S.C. §122 enacted in 1913, since it is subject to the same limitations as the Wilson Act, and its language is no broader than section 2 of the 21st Amendment.

at retail in "original packages", in shops commonly called "original package saloons", and invited ameliorative legislation.

Bowman v. *Chicago & Northwestern Ry. Co.*, 125 U. S. 465 (1888);
Leisy v. *Hardin*, 135 U. S. 100 (1890);
Re Rahrer, 140 U. S. 545 (1891);
Congressional Debate of Wilson Act, Vol. 21, pp. 8216, 8223 et seq. 51 Cong. 1st Sess. Aug. 6, 1890.

Whatever the intent of the Wilson Act, it could not authorize state taxation of foreign imports because the Constitution does not grant to Congress that power except "for the use of the Treasury of the United States":

> "No State shall, without the Consent of the Congress, lay any Imposts or Duties on Imports or Exports, except what may be absolutely necessary for executing its inspection Laws: and the net Produce of all Duties and Imposts, laid by any State on Imports or Exports, shall be for the Use of the Treasury of the United States; and all such Laws shall be subject to the Revision and Control of the Congress." (Art. 1, Sec. 10, Cl. 2)

See

James Madison, 3 Ferrand, Records of the Federal Convention, 328, 329, 519, 520;
Luther Martin, 3 Ferrand op. cit. *supra* 172, 215, 216;
Woodruff v. *Parham*, 8 Wall. 123, 133 (1869);
Youngstown Sheet & Tube Co. v. *Bowers*, 358 U. S. 534, 552 (1959);
Richfield Oil Corp. v. *State Board of Equalization*, 329 U. S. 69, 77 (1946);

Parrot v. *City of San Francisco*, 131 Cal. App. 2d 332, 280 P. 2d 881, 885 (1955);
Union Oil Co. v. *City of Los Angeles*, 227 Cal. App. 2d 608 (1964), cert. den. 379 U. S. 972 (1965).

It is inconceivable that Congress intended the Wilson Act to accomplish what the 21st Amendment later failed to accomplish.

DeBary v. *Louisiana*, 227 U. S. 108 (1913).

DeBary held both federal retail and wholesale "special occupational tax stamps". The State of Louisiana taxed sales of liquor of five gallons or less. It did not tax larger sales. The Federal Government at the time defined retail sales as five gallons or less. So also did a great many states.[8] The Court upheld the state's right to tax such sales under the Wilson Act. The Import-Export Clause was not, and could not be in issue. Since *Brown* v. *Maryland*, the Import-Export Clause has been assumed to apply only to wholesale sales, never to retail or consumer sales.

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[8] California-L. 1873, Ch 297, Section 7; Connecticut-L. 1887, Ch. 49; Kentucky-Act of March 10, 1894, Section 5; Louisiana-L. 1908, Act No. 176; Minnesota-L. 1905, Ch 347; New Jersey-L. 1889, Page 78; New Mexico-Territory Statutes-L. 1891, Ch. 9, Section 13 (4 7/8 gallons); New York-L. 1896, Ch. 112; North Carolina-L. 1905, Ch. 588, Section 60; Rhode Island-L. 1881, Ch. 87, Section 11; Tennessee-L. 1907, Ch. 547; Virginia-L. 1876-77, Ch. 253; West Virginia-L. 1877, Ch. 108, Section 4; Wyoming-L. 1890-91, Ch. 23, Section 1.

Illinois had a local option statute and several localities enacted five gallon laws. See *Strauss* v. *City of Galesburg*, 203 Ill. 234, 67 N.E. 836 (1903).

"This question came directly before the court for the first time in the case of *Brown* v. *The State of Maryland*, 12 Wheat. 419. And the court there held that an article authorized by a law of Congress to be imported continued to be a part of the foreign commerce of the country while it remained in the hands of the importer for sale, in the original bale, package, or vessel in which it was imported; that the authority given to import necessarily carried with it the right to sell the imported article in the form and shape in which it was imported, and that no State, either by direct assessment or by requiring a license from the importer before he was permitted to sell, could impose any burden upon him or the property imported beyond what the law of Congress had itself imposed; but that when the original package was broken up for use or for retail by the importer, and also when the commodity had passed from his hands into the hands of a purchaser, it ceased to be an import, or a part of foreign commerce, and became subject to the laws of the State, and might be taxed for State purposes, and the sale regulated by the State, like any other property. This I understand to be substantially the decision in the case of *Brown* v. *The State of Maryland* • • •" *License Cases*, 5 How. 504, 574, 575 (1847).

Seemingly, all states at all times have taxed retail sales of liquor without regard to whether they were imported or domestic. *Pervear* v. *The Commonwealth*, 5 Wall. 475, 480, (1866); *License Cases* at pp. 537, 538,[9] except for the few months following the decision of *Leisy* v. *Hardin*, 135

[9] In 1913, when DeBary was decided, all but the prohibition states had such taxes.

U. S. 100 (1890), which relied on the Commerce Clause, and led to the passage of the Wilson Act. During that time they could tax neither domestic nor foreign liquor sold in "original packages" unless it was manufactured in the state.

How then is the footnote in the *Beam* case to be understood? In the light of main text of the opinion, and the history of the Import-Export Clause, it must mean that states may tax retail sales and all other sales *after* importation has ceased, *after* the importer has disposed of his goods at wholesale:

> "As this Court stated almost a century ago in Low v. Austin, 13 Wall. 29, a case involving a California ad valorem tax on wine imported from France and stored in original cases in a San Francisco warehouse, '[t]he goods imported do not lose their character as imports, . . . until they have passed from the control of the importer or been broken up by him from their original cases. Whilst retaining their character as imports, a tax upon them, in any shape, is within the constitutional prohibition.' Id. at 34. See Hooven & Allison Co. v. Evatt, 342 U. S. 652." (*Beam* at p. 343)

POINT III

The Import-Export clause should not be eroded.

The opinion of the court below states that the "mischief" sought to be prevented by the Import-Export Clause was the ability of the importing states to levy a tax on products which were destined for use or sale in inland states, and considered the need for such prevention has abated.[10] It was suggesting revision of *Brown* v.

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[10] This is not a reason for changing a constitutional provision so clear in its language. *Youngstown Sheet & Tube Co.* v. *Bowers*, 358 U.S. 534, 539 (1959); *Rochelle Oil Corp.* v. *State Board of Equalization*, 328 U.S. 68, 77, 78 (1946).

Maryland, perhaps to all imports, on grounds rejected by this Court. This Court has specifically held this to be wrong, "that function was only a phase of a larger design" (*Richfield Oil Corp.* v. *State Board of Equalization*, 329 U. S. 69, 76, 77 (1946). The larger design has not abated. It included:

1. The grant of import revenues exclusively to the Federal Government.

The clause itself provides that even if Congress permits a state to tax, it shall only be for the Treasury of the United States, and under its supervision. The matter was bitterly debated at the time the Constitution was written. 3 Ferrand op. cit. *supra*, 172, 215, 216.

2. The exclusive power of the Federal Government over imports. *Board of Trustees* v. *United States*, 289 U. S. 48, 59 (1933).

This would be seriously limited if the decision of the Court below were sustained. Such federal programs as the "Kennedy round of talks" could not be conducted if a state could tax imports contrary to the "practice of nations" before and since the Constitution was drafted. The states might even tax whiskey from Scotland and Ireland, and wine from Germany and France at different rates. *Parrott* v. *City of San Francisco*, 131 Cal. App. 2d 332, 280 P. 2d 881, 885 (1955). In any event, more than New York's interest in obtaining additional revenue from the sale of liquor would need to be shown to overrule *Brown* v. *Maryland* and the obvious intent of the constitutional draftsmen.

One question remains: Should this Court reverse its holding in *Beam* and find that the 21st Amendment allows the states to tax sales on liquor sold within the state? We do not know why it should, but if the issue comes to this,

then a substantial question of constitutional law is certainly raised and is best left to later, more detailed, briefing and oral argument.

CONCLUSION

The final judgment of the Court of Appeals of the State of New York requires this Court's review and reversal because it upheld a tax never before permitted and long clearly repugnant to the Import-Export clause of the Constitution.

Respectfully submitted,

H. GARDNER INGRAHAM
Attorney for Appellant
40 Wall Street
New York, N. Y. 10005

EMANUEL BECKER
LESTER H. SCHREIBER
SCHREIBER & SCHREIBER
of Counsel

Dated: September 3, 1969.

APPENDIX A

Memorandum Decision and Remittitur

COURT OF APPEALS

STATE OF NEW YORK, ss.:

PLEAS in the Court of Appeals, held at Court of Appeals Hall, in the City of Albany, on the 2nd day of July in the year of our Lord one thousand nine hundred and sixty-nine, before the Judges of said Court.

WITNESS,

The HON. STANLEY H. FULD,
Chief Judge, *Presiding.*

RAYMOND J. CANNON, *Clerk.*

REMITTITUR—July 2, 1969

3. No. 126. 69

In the Matter of
THE HOUSE OF SEAGRAM, *Inc.*, & ors.,

Appellants,

vs.

STATE LIQUOR AUTHORITY & ano., &c.,

Respondents.

Appendix A

BE IT REMEMBERED, That on the 13th day of March in the year of our Lord one thousand nine hundred and sixty-nine, The House of Seagram, Inc., & ors., the appellants in this cause, came here unto the Court of Appeals, by Schreiber & Schreiber, their attorneys, and filed in the said Court a Notice of Appeal and return thereto from the order of the Appellate Division of the Supreme Court in and for the Third Judicial Department. And State Liquor Authority & ano., &c., the respondents in said cause, afterwards appeared in said Court of Appeals by Louis J. Lefkowitz, Attorney General.

Which said Notice of Appeal and the return thereto, filed as aforesaid, are hereunto annexed.

WHEREUPON, The said Court of Appeals having heard this cause argued by Mr. Emanuel Becker, of counsel for the appellant, and by Grace Banoff, of counsel for the respondents, and after due deliberation had thereon, did order and adjudge that the order of the Appellate Division of the Supreme Court appealed from herein be and the same hereby is affirmed, with costs, on the opinion at the Appellate Division. The court necessarily passed upon the contention of the petitioners-appellants that the imposition of a fee for the issuance of a brand label use permit to sell alcoholic beverages, insofar as it covers liquors which are imported from without the State for sale within its borders, constitutes a tax or duty of "imports" proscribed by the Import-Export Clause—article I, section 10—of the United States Constitution and, as indicated by its affirmance "on the opinion of the Appellate Division in *Matter of House of Seagram, Inc.* v. *S.L.A.* (30 A D 2d 380)," found the contention without merit.

Appendix A

And it was also further ordered, that the records aforesaid, and the proceedings in this Court, be remitted to the Supreme Court of the State of New York, there to be proceeded upon according to law.

WHEREFORE, it is considered that the said order be affirmed, with costs, &c., as aforesaid.

And hereupon, as well the Notice of Appeal and return thereto aforesaid as the judgment of the Court of Appeals aforesaid, by it given in the premises, are by the said Court of Appeals remitted into the Supreme Court of the State of New York before the Justices thereof, according to the form of the statute in such case made and provided, to be enforced according to law, and which record now remains in the said Supreme Court, before the Justices thereof, &c.

RAYMOND J. CANNON
Clerk of the Court of Appeals of the State of New York.

COURT OF APPEALS, CLERK'S OFFICE,

Albany, July 2, 1969.

I HEREBY CERTIFY, that the preceding record contains a correct transcript of the proceedings in said cause in the Court of Appeals, with the papers originally filed therein, attached thereto.

RAYMOND J. CANNON,
Clerk.

(SEAL)

APPENDIX B

Opinion of the New York Supreme Court, Appellate Division, Third Department

12755

SUPREME COURT OF THE STATE OF NEW YORK

APPELLATE DIVISION—THIRD DEPARTMENT

HOUSE OF SEAGRAM, et al.,

Appellants,

—against—

STATE LIQUOR AUTHORITY, et al.,

Respondents.

Argued, May 22, 1968.

Before:

HON. JAMES GIBSON,
Presiding Justice,
HON. J. CLARENCE HERLIHY,
HON. FELIX J. AULISI,
HON. ELLIS J. STALEY, JR.,
HON. DOMENICK L. GABRIELLI,
Associate Justices.

APPEAL from a judgment of the Supreme Court at Special Term (Sydney F. Foster, J.; [Opinion 51 Misc 2d 157]), entered June 21, 1966 in Albany County, which dis-

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missed petitioners' applications in a proceeding under CPLR article 78 to direct the refund of certain fees and to direct the respondents to desist from further collecting such fees.

OPINION FOR AFFIRMANCE

HERLIHY, J.

The petitioner has alleged that it is a wholesaler of certain alcoholic beverages imported by it from foreign countries and resold by it in "the package of original importation".

Section 99-a of the Alcoholic Beverage Control Law requires the petitioner to secure a brand label use permit for the subject imported goods prior to their sale or the solicitation of any orders therefor in this State and further imposes a fee for the said permit based upon sales in this State. The said section 99-a also provides that the subject fees are not applicable if the sales would be exempt from excise taxes pursuant to article 18 of the Tax Law.

Section 424 of the Tax Law imposes an excise tax on liquor except where the State is without power to impose such a tax.

The narrow issue presented to this court is whether or not an excise tax may be imposed by New York State on the *first sale* of alcoholic beverages in their original package in New York State by an importer-wholesaler.

The parties agree that the applicable portion of the United States Constitution is section 10 of article 1 thereof, commonly known as the Import-Export Clause which prohibits State taxation of imports or exports without the consent of Congress. (See *Department of Revenue* v. *James B. Beam Distlg. Co.*, 377 U. S. 341, 344.)

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The power of a State to tax chattels imported from foreign countries depends upon whether or not the process of importing has ended prior to the imposition of the tax. (See *Department of Revenue* v. *James B. Beam Distill. Co., supra*, p. 346.) In *Brown* v. *Maryland* (12 Wheat. [25 U. S.] 419) the court held that a tax on the importer for the privilege of selling an article, imported only for sale, was prohibited by the Import-Export Clause. The prohibition against such a tax, however, was limited to levies prior to the incorporation of the goods into the common mass of goods in the State. In the *Brown* case, the statute involved required importers, as a specific class, to obtain a license and pay a fee for the same prior to selling the imported products. In the present case, the subject fee is applied to all wholesalers who sell the subject alcoholic beverages in this State. In *Hooven & Allison Co.* v. *Evatt* (324 U. S. 652, 656) the court reiterated the rule of the *Brown* case.

As a general proposition the rule appears to be that goods imported for resale in their original package may not be taxed by a levy on the importer, which levy is related to the sale of the goods. The prohibition against such levies appears to be limited to transactions prior to the goods having reached the market place or point where they are held for sales to consumers.

However, the present case concerns a particular class of goods, to wit: alcoholic beverages.

In 1919 the 18th Amendment to the U. S. Constitution was duly ratified by the States. This amendment prohibited "the manufacture, sale, or transportation of intoxicating liquors within, the *importation* thereof into, or the *exportation* thereof from the United States . . . for beverage purposes." (Emphasis added.) In 1933 the 21st

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Amendment to the U. S. Constitution was duly ratified by the States. This amendment repealed the 18th Amendment and provided in section 2 thereof: "The transportation or *importation* into any State, Territory or possession of the United States for delivery or use therein of intoxicating liquors, in violation of the laws thereof, is hereby prohibited." (Emphasis added.)

The most recent decision of the Supreme Court relating directly to the Import-Export Clause and the 21st Amendment is *Department of Revenue* v. *James B. Beam Distill. Co.* (*supra*). Beam was the sole distributor in the United States of a particular brand of liquor produced in Scotland, shipped via the ports of Chicago or New York to Beam's warehouses in Kentucky and subsequently sold to customers in domestic markets throughout the United States. The applicable Kentucky statute provided:

> "No person shall ship or transport or cause to be shipped or transported into the state any distilled spirits from points without the state without first obtaining a permit from the department and paying a tax of ten cents on each proof gallon contained in the shipment."

The Kentucky Court of Appeals held that the tax in question, although an occupation or license tax in form, was a tax on imports, noting that the incidence of the tax is the act of transporting or shipping the distilled spirits into the State. The Supreme Court affirmed the Kentucky court and held that the tax was one on imports and thus in violation of the Import Clause; and that the 21st Amendment did not permit the State to lay an impost on imported liquor. (It might be noted that an *impost* is a generic term for tax; and an excise tax has been defined

to mean a type of impost (see Black's Law Dictionary [4th ed.] pp. 672, 889.) In *Beam* the tax was on the act of shipping or transporting the liquor into the State; in the present case we are considering a tax on the sale of liquor which is an excise tax levied when the liquor is *sold* within this State by an importer.

The Court in *Beam* referred to the case of *DeBary v. Louisiana* (227 U. S. 108) as follows: "[T]he court upheld under the Wilson Act a Louisiana license tax imposed on the business of *selling* in their original packages wines and liquors imported from abroad. There is nothing in that decision . . . to support the view that Congress intended . . . to consent to state taxation upon importation of liquor." (Emphasis in original.) (*Department of Revenue v. James B. Beam Distill. Co., supra*, pp. 345, 346, F. 7.) The emphasis of the Court on the aspect of selling as opposed to the act of importation (transportation) cannot be ignored and we find in *Beam* an implied approval of taxation on the *sale* of alcoholic beverages in the original package or otherwise. More support for the theory that there presently is a distinction between a tax on the sale of the subject beverages and a tax on the importation of the goods is found in *Gordon v. Texas* (166 Tex. Cr. R. 24, affd. 335 U. S. 369). As noted in *Beam*, the tax in the *Gordon* case was held not to be a tax on imports. (See *Department of Revenue v. James B. Beam Distill. Co., supra*, 345, N. 6.)

In view of the holdings in *Gordon* and *DeBary* and the language in *Beam*, we conclude that by virtue of the 21st Amendment an unusual and exceptional power was given to the States to control alcoholic beverages within its borders and, therefore, the Import-Export clause is not violated when New York imposes an excise tax on the sale of

liquor in its "original package" within the State of New York, regardless of its ultimate destination.

In any event, the present case presents no facts which would indicate that the liquor involved was destined for distribution outside New York. The relief requested by the petitioner herein concerns specific sales of liquor and the fees already paid in connection therewith, and from what would appear in the parties' briefs, it is conceded that this case involves liquor that has come to rest in New York. Moreover, the petitioner seems to concede that the fact that the goods are sold in their "original package" does not necessarily mean that they are still in the process of importation.

If, as would appear, the action deals with alcoholic beverages that have come to rest in New York, then clearly the present excise tax is constitutional, for as it was pointed out in *Brown*, the purpose of the import clause was to prevent the seaport States from taking an unfair tax advantage of the inland States.[1] (See *Brown* v. *Maryland*, *supra*, p. 44.) The court went on to note that "When we are inquiring whether a particular act is within this prohibition; the question is not, whether the state may so legislate to hurt itself, but whether the act is within the words and mischief of the prohibitory clause." (*Ibid.*)

Subsequent cases make clear that the "mischief" to be prevented by the import clause was the ability of the importing States to levy a tax on products which were destined for use or resale in the inland States. (*Youngstown*

[1] We might note that the necessity for the existence of the import clause seems to have abated in modern times inasmuch as all the States can easily become import States as to goods capable of air transportation and to inland seaports by boat

Sheet & Tube Co. v. Bowers, 358 U. S. 534, 545; *Hooven & Allison Co. v. Evatt*, *supra*, p. 678; *Woodruff v. Parham*, 8 Wall. [75 U. S.] 123, 134-135; License Cases, 5 How. [46 U. S.] 504, 573-574.) Based on the aforementioned decisions, we would conclude that an excise tax on liquor that comes to rest in New York and is resold for use in New York State does not violate the Import Clause for the tax is simply not within the purpose of the constitutional prohibition.

Furthermore, the court in *Keim* (p. 346) stated: "There can surely be no doubt, either, of [a State's] plenary power to regulate and control, by taxation or otherwise, the distribution, use or consumption of intoxicants within her territory after they have been imported." (Emphasis added.) In the present case, the petitioner has failed to allege that the liquor was at the time of sale in transit and accordingly the excise tax that could be imposed on the liquor involved would be a tax "after [the liquor has] been imported."

In sum, it is determined that New York State may constitutionally tax the sale of alcoholic beverages in their "original package" by an importer when the sale is made in the State. It is further determined that the State may in any event impose a tax in like circumstances when the liquor is destined for use and distribution within the State, and that petitioner has failed to allege that the sales in question were otherwise. Thus the present sales are not exempt from the fee levied under section 99-a and, of course, from the foregoing discussion, the fee does not violate the Import Clause of the Constitution of the United States.

The judgment should be affirmed.

APPENDIX C

Opinion of the New York Supreme Court, Special Term, Albany County

Albany County Special Term

April 22, 1966

(Calendar No. 3)

SUPREME COURT OF THE STATE OF NEW YORK

COUNTY OF ALBANY

THE HOUSE OF SEAGRAM, INC.,

Petitioner,

for an order pursuant to ARTICLE 78 of the Civil Practice Law and Rules,

against

STATE LIQUOR AUTHORITY and ARTHUR LEVITT, Comptroller of the State of New York,

Respondents.

FOSTER, J.:

These proceedings, brought by several petitioners under Article 78 of the Civil Practice Law and Rules, involve substantially the same issue or issues. For the purposes of this memorandum, and for the sake of convenience, the singular term petitioner will hereinafter be used. The respondents, State Liquor Authority and the State Comptroller, have moved to dismiss the petition herein.

Appendix C

Petitioner is duly licensed to sell liquor and wine at wholesale pursuant to the provisions of the Alcoholic Beverage Control Law (hereinafter referred to as the A. B. C. Law). Respondent, State Liquor Authority (hereinafter referred to as SLA), has collected a fee from petitioner for the issuance of a brand label use permit in connection with the sale of liquor and pursuant to the provisions of Section 99-a of the A. B. C. Law (as added by L. 1963, ch. 204, §32). Subdivision 1(a) of said Section 99-a provides:

> "no manufacturer or wholesaler of liquor, wine or beer shall sell or solicit any order for any liquor, wine or beer in the state, the container of which bears a label stating the brand or trade name of the owner or producer, unless each brand label shall first have been registered with and approved by the authority pursuant to the provisions of section one hundred seven-a of this chapter and a brand label use permit has been issued by the authority in accordance with the provisions of this section."

The fee part of the statute, subdivision 3(a), reads in part as follows:

> "For the exercise of the privilege granted by any brand label use permit issued pursuant to this section, each manufacturer or wholesaler who is the holder of such a permit shall pay to the authority a fee, based upon the gallons of liquor, wine or beer sold in the state under such brand or trade name • • •"

Subdivision 3(d) of the statute provides:

> "The above fees shall not be applicable where alcoholic beverages are sold to the United States or un-

> der any other circumstances where the sale of such alcoholic beverages would be exempt from excise taxes under the provisions of article eighteen of the tax law."

Section 432 of Article Eighteen of the Tax Law, insofar as pertinent here, simply provides that no provision of such article (taxes on liquor sold or used within this state) shall apply or be construed to apply to foreign or interstate commerce.

It is the contention of petitioner that the fees prescribed by Section 99-a of the A. B. C. Law for the issuance of a brand label use permit are inapplicable to the sale of liquor imported by petitioner and sold by it in the packages of original importation; and that if the section does require the payment of fees, it is unconstitutional as an import duty and in violation of Article I, Section 10, of the United States Constitution. On the basis of the foregoing, petitioner filed with the respondent SLA claims for refunds of payments made during various periods on sales of imported alcoholic beverages sold in the package of original importation. Such claims were rejected, and hence this proceeding in which, among other forms of relief, petitioner seeks an order of refund. There are no disputed issues of fact, since the respondents by their motion to dismiss concede the facts set forth in the petition, but this of course does not include conclusions or matters of law.

The contention of petitioner that Section 99-a does not apply to its sales of brand liquor in packages of original importation necessarily depends upon whether the fees prescribed by the statute are found to be import duties, for the prohibition contained in Section 432 of the Tax

Law as evidenced by its language extends only to foreign or interstate commerce, and in turn whether the exemption in Section 99-a, subdivision 3(d), of the A. B. C. Law extends only to excise taxes prohibited under Section 432 of the Tax Law. Hence the only real issue is whether the fees charged petitioner for the exercise of the privilege granted by a brand label use permit are in violation of the United States Constitution (Art. I, §10, cl. 2) which provides:

> "No State shall, without the Consent of the Congress, lay any Imposts or Duties on Imports or Exports, except what may be absolutely necessary for executing it's inspection laws * * *."

The original package doctrine as related to imports was first enunciated by the Supreme Court in the case of *Brown* v. *Maryland*, 12 Wheat. [25 U. S.] 419. There the Court declared unconstitutional a license charge levied against importers by the State of Maryland. The Court said among other things (at p. 442): "* * * but while remaining the property of the importer, in his warehouse, in the original form or package in which it was imported, a tax upon it is too plainly a duty on imports to escape the prohibition in the constitution." This was in 1827. The effect of this decision was modified in 1890 when Congress passed the so-called Wilson Act of Original Packages Act (U. S. Code, tit. 27, §121). The title to this Act was "An Act to limit the effect of regulations of commerce between the several States and with foreign countries in certain cases", and it provided:

> "§121. State statutes as operative on termination of transportation; original packages. All fermented, distilled, or other intoxicating liquors or liq

> uids transported into any State or Territory or remaining therein for use, consumption, sale or storage therein, shall upon arrival in such State or Territory be subject to the operation and effect of the laws of such State or Territory enacted in the exercise of its police powers, to the same extent and in the same manner as though such liquids or liquors has been produced in such State or Territory, and shall not be exempt therefrom by reason of being introduced therein in original packages or otherwise."

Patently, under the language of the foregoing Act, so far as liquor is concerned, the import process ceased upon the arrival of liquor in a state and subjected the same to state regulation whether or not such liquor was still in the original package of importation. Such was the view of the Supreme Court in 1913 (*DeBary* v. *Louisiana*, 227 U. S. 108; see also *Department of Revenue* v. *James B. Beam Distilling Co.*, 377 U. S. 341). Subsequently of course came the Eighteenth Amendment to the Constitution of the United States (in effect January 16, 1920) which prohibited the manufacture, sale or transportation of intoxicating liquors in this country. Thereafter the Eighteenth Amendment was repealed by the Twenty-first Amendment to the Federal Constitution (in effect December 5, 1933). Of course during the tenure of the Eighteenth Amendment the Wilson Act (supra) became a dead letter for there was nothing for the states to regulate, but the Act was never repealed. The Twenty-first Amendment gave recognition to the states' power to control the transportation or importation of intoxicating liquors into any state, but it did not affect in any way so far as can be seen the operation of the Wilson Act. There is authority

to the effect that such Act is still in effect (*Hostetter* v. *Idlewild Bon Voyage Liq. Corp.*, 377 U. S. 324, 333, n. 11; *Department of Revenue* v. *James B. Beam Distilling Co.*, 377 U. S. 341, 345-346, n. 7, *supra*).

Aside from all this the language of Section 99-a clearly indicates that the brand label use fee is not a tax on imports but rather a charge for the privilege of selling a particular brand of liquor in this State. It applies to all brand label sales where a permit is granted regardless of whether the liquor was manufactured in the State, shipped in from other states or imported from a foreign country. Measurement of the privilege fee by the volume of brand label liquors sold is a valid exercise of regulatory power by the State, for the fee is not imposed on liquor as such but for the privilege of using a brand name (see *Educational Films Corp. of America* v. *Ward*, 282 U. S. 379; *Canton Railroad Co.* v. *Rogan*, 340 U. S. 511).

The conclusion is reached that the challenged fee is not an import duty on imported goods; and such fee does not contravene Section 432 of the Tax Law.

Petition dismissed without costs.

In the proceedings brought by the Cardinal Distributors Inc., and Universal Liquor Corporation, the petitions are also dismissed without costs for the reasons stated in the foregoing memorandum. It is unnecessary to reach the issue of petitioners' status.

The petition in the proceeding brought by Knickerbocker Liquors Corporation is also dismissed without costs.

June 2, 1966

APPENDIX D

Section 99-a of the New York Alcoholic Beverage Control Law, 3 McKinneys Cons. Laws (§32 of Ch. 204, 1963 Session Laws)

§99-a. Brand label use permit. 1. (a) no manufacturer or wholesaler of liquor, wine or beer shall sell or solicit any order for any liquor, wine or beer in the state, the container of which bears a label stating the brand or trade name of the owner or producer, unless such brand label shall first have been registered with and approved by the authority pursuant to the provisions of section one hundred seven-a of this chapter and a brand label use permit has been issued by the authority in accordance with the provisions of this section.

(b) The application for such permit shall be made in writing and shall contain such information as the liquor authority may require and, unless otherwise permitted or required by the authority, such application shall be filed by the same licensee registering the brand label pursuant to section one hundred seven-a of this chapter.

2. (a) Each brand label use permit issued pursuant to this section shall be valid for a term which shall run concurrently with the term of the brand label registration and shall not be transferrable.

(b) Each such permit shall set forth the exact brand or trade name of the alcoholic beverage for which the permit is issued, a description of the alcoholic beverage, the type or percentage of alcoholic content where applicable, the age or proof thereof where applicable, the age, type and percentage of base whiskey where applicable, and such other information as to quality and identity as the author-

ity may require and shall in form and in substance authorize the sale of and the soliciting of orders for the alcoholic beverage identified in such permit to wholesalers and retailers in this state.

3. (a) For the exercise of the privilege granted by any brand label use permit issued pursuant to this section, each manufacturer or wholesaler who is the holder of such a permit shall pay to the authority a fee, based upon the gallons of liquor, wine or liver sold in the state under such brand or trade name, the amount of which shall be determined in accordance with the following table:

Beer	one and one-ninth cents per gallon
Artificially carbonated sparkling wine except sparkling cider containing more than three and two-tenths per centum alcohol	six and two-thirds cents per gallon
Natural sparkling wine except natural sparkling cider containing more than three and two-tenths per centum alcohol	thirteen and one-third cents per gallon
Liquor containing not more than twenty-four per centum alcohol	sixteen and two-thirds cents per gallon
All other liquor	seventy-five cents per gallon

For the purpose of this section, the term "gallon" shall mean one hundred twenty-eight fluid ounces.

(b) Each manufacturer or wholesaler to whom a brand label use permit has been issued pursuant to this section for a particular brand of liquor, beer or wine shall be presumed liable for the payment of such fees for all sales of such liquor, beer or wine.

(c) Such presumption of liability may be rebutted by such manufacturer or wholesaler upon a showing that

such fees have been paid by another manufacturer or wholesaler; another manufacturer or wholesaler was the consignee of such alcoholic beverages at the time of their original importation into the state and that he has assumed liability for the payment of such fees; another manufacturer or wholesaler caused such alcoholic beverages, whether or not represented by warehouse receipts, to be removed from a warehouse and is liable or has assumed liability for the payment of such fees; another licensee or permittee has used such alcoholic beverages in the processes of manufacture and is liable or has assumed liability for the payment of such fees.

(d) The above fees shall not be applicable where alcoholic beverages are sold to the United States or under any other circumstances where the sale of such alcoholic beverages would be exempt from excise taxes under the provisions of article eighteen of the tax law.

4. (a) The fees prescribed in subdivision three shall become due and payable on the twenty-fifth day of the month following the month in which such alcoholic beverages are sold or used; unless the authority shall shorten or extend the time within which such payment shall be made, and shall be accompanied by a schedule stating separately the number of gallons of liquor, wine and beer sold by each manufacturer or wholesaler in the state during the preceding calendar month and such other information as the authority may require.

(b) Nothing contained in this section shall prohibit the sale by any manufacturer or wholesaler to any retailer of any alcoholic beverage to be resold by such retailer under a brand label registered by such retailer under section one

Appendix D

hundred seven a of this chapter; provided that such manufacturer or wholesaler shall pay to the authority the appropriate fee prescribed in subdivision three of this section.

5. Whenever any manufacturer or wholesaler shall fail to pay any fees prescribed by this section within the time provided by this section, the authority may suspend, cancel or revoke the license of such manufacturer or wholesaler if any such payments have not been made after written notification of at least fifteen days following the date such payment became due. Such written notification shall in any event direct the manufacturer or wholesaler to file promptly the schedule of sales required by subdivision four of this section, and failure to comply with such direction within ten days shall be grounds for suspension, cancellation or revocation of the license of such manufacturer or wholesaler.

The attorney general shall, upon request of the authority, enforce payment of such fees by civil action in the supreme court, in the name of the people of the state against such manufacturer or wholesaler for the amount of such fees, with interest. The proceeds of the judgment, if any, entered upon such action shall be paid to the department of audit and control.

6. Whenever the authority shall determine that any moneys received under the provisions of this section were paid in error or in connection with sales made for purposes beyond its jurisdictional purposes, it may cause the same to be refunded, without interest, in accordance with such rules and regulations as it may prescribe. A licensee entitled to a refund under the provisions of this subdivision may be granted a credit therefor to be applied to future

payments that may be required under this section. Credits may also be granted and similarly applied where the authority determines that, due to breakage, alcoholic beverages have not been sold or used by a licensee.

7. The authority is hereby authorized to promulgate rules which are necessary (a) to carry out the provisions and effectuate the purposes of this section and to prevent circumvention or avoidance thereof, (b) when not inconsistent with the purposes of this section and whenever necessary to avoid practical difficulties or unnecessary hardship to any licensee affected by this section, to exempt from the fee provisions of subdivision three of this section, for good cause shown, transfers, exchanges, returns and other adjustments between one licensee and another, subject to such terms and conditions as it deems necessary.

8. Notwithstanding the provisions of section four hundred thirty-seven of the tax law, the state tax commission is hereby authorized to furnish to the authority such information as the authority may require relative to tax returns filed by a licensee pursuant to the provisions of article nineteen of the tax law.

APPENDIX E

Section 99-a, sub. 6 and Section 127-d of the New York Alcoholic Beverage Control Law, 3 McKinney Cons. Laws

Section 99-a. Brand Label List Permit.

Section 127-d. Refunds on Overpayment of Fees; Permit Not Issued.